

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



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**Remarks by Arthur A. Garcia, Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury**

at the

**Community Development Bankers Association's
Annual Peer Forum**

**One Chase Manhattan Plaza
New York, NY**

Good afternoon! Thank you Bob [McGill], for your kind introduction and to all of you who have traveled to be here today. I am glad that I have this opportunity to talk to you about the important activities of the CDFI Fund and to discuss President Bush's proposed Strengthening America's Communities Initiative. I want to share this initiative with you because it will touch the CDFI industry. In anticipation of some of your questions we have developed a Frequently Asked Questions document which is posted on the Fund's website. I hope you will find it helpful.

Now, before I address the President's proposed initiative, I want to bring my message to you regarding the CDFI Fund. It is – simply put – “Business as Usual” for the remainder of the fiscal year 2005.

Let me be sure that every one of you here today that does business with the CDFI Fund understands what “Business as Usual” means. It means that the nearly \$40 million that the Fund has available for its award programs this fiscal year will be obligated toward every award program the Fund administers.

“Business as Usual” means that the Fund will continue to review and evaluate all the applications we received under our programs:

- 141 applications received for over \$24 million available under the Financial Assistance Component of the CDFI Program;
- 82 applications received under the Technical Assistance Component of the CDFI Program where \$2 million is available;

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- 31 applications received on February 1st for the Native American CDFI Assistance Program with \$3.9 available; and
- 84 applications received on February 14 for the nearly \$10 million available for FY 2005 Bank Enterprise awards.

It is my expectation that the Fund has received sufficient quality applications so that every penny of these appropriated funds will be obligated and awarded for the important work you do in serving distressed communities and low-income people throughout the country.

“Business as Usual” applies to more than the Fund’s award cycles this year. As of today, the Fund has certified 740 organizations as CDFIs. “Business as Usual” means that the Fund will continue evaluating all CDFI Certification applications it received by the January 14 deadline.

“Business and Usual” also relates to the current round of the New Markets Tax Credit Program. The Fund will soon finish its evaluation of the applications it received last fall and will announce the recipients of \$2 billion of tax credit authority later this spring.

We are very proud of the fact that the 129 allocatees already awarded have collectively raised over \$2 Billion in equity investments from investors. These Community Development Entities will in turn reinvest these dollars in our nation’s low-income communities.

We want to enable CDFIs to continue to do business as usual as well. We will ask that you continue to file required reports on the loans and investments you are making and the services you are providing through the Fund’s data collection system, known as the Community Investment Impact System, or CIIS. The Fund will continue to make CIIS better and easier to use. One of the major concerns we've heard from you is the difficulty you face in completing the Transaction Level Report. As promised, the Fund has reached out to your software vendors and found that at least five of the eight banks that reported to CIIS last year use ITI software (which you may know as FISERVE). In our discussions with ITI, we've learned that the software includes a data export feature that you may be able to use to complete your Transaction Level Reports. While the feature does not contain all of the required CIIS data points – impact data for example – and there are borrower privacy issues to be addressed, this appears to be a promising avenue. We are looking into this further and will not only keep you apprised of what we learn but seek your input as we move down this path.

The Fund will also continue its plan to enhance its mapping capability through the CDFI Information and Mapping System, or CIMS, by updating the metropolitan area definitions as required by the Office of Management and Budget.

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And last, but not at all least, the Fund will go forward with its plan to complete the independent evaluations of both its Financial and Technical Assistance Components of the CDFI Program and the New Markets Tax Credit Program as required by the President's Management Agenda. These will supply the independent evaluations needed to demonstrate the meaningful results and impact delivered by these programs with taxpayer dollars.

When timing and logistics are appropriate, in regards to the President's Strengthening America's Communities proposal and the FY 2006 budget, we intend to look more closely at the BEA Program. As you are well aware, the current structure of the program has not fared well in the OMB Program Assessment and Rating process. Working with interested members of the industry, such as this group, the Fund would think it is important to lead the effort in finding a means to put the program on a stronger footing going forward.

We know it will be important that the BEA program be able to demonstrate its impact. Last year, the Fund received 65 applications requesting \$24.6 million through the BEA Program. We awarded 49 of these banks and thrifts over \$17 million. Collectively, between the base line period and the assessment period of the program, these 65 applicants:

- Increased their equity investments or grants to CDFIs by almost \$2.0 million;
- Increased their loans, deposits, and technical assistance to CDFIs by a total of \$31.9 million;
- Increased their loans and investments in distressed communities by a total of \$306.8 million; and
- Increased their financial services in distressed communities by a total of \$20.6 million.

In addition, applicants in the Financing Activities category generated \$558 million in activity in distressed communities, resulting in:

- 2,882 new homeowners;
- 2,064 new units of affordable housing;
- 368 commercial real estate projects; and
- 1,128 jobs created/maintained.

Good work!

Now, I would like to turn to the President's proposed Strengthening America's Communities Initiative.

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Strengthening America's Communities Initiative:

- The primary goal of the President's "Strengthening America's Communities Initiative" is to help communities make the transition to vibrant, strong 21st century economies, to grow the economy and focus federal economic and community development efforts on creating job opportunities for the American people.
- To help outline this initiative, I want to briefly highlight:
 - The rationale and underlying principles behind the initiative;
 - The main points of the initiative;
 - The case for reform; and,
 - The application of the initiative.

Rationale and Underlying Principles

- America's changing economy is strong and getting stronger. But during times of transition, America's economic growth is not felt equally throughout the Nation.
- President Bush believes that communities can make the transition to vibrant and strong economies because of the entrepreneurial spirit, vision, and hard work of those who live there.
- The President believes that the goal of federal economic and community development programs should be to create the conditions for economic growth, robust job creation, and livable communities, thereby reducing a community's reliance on perpetual federal assistance.
- The job of government is to inspire, to help remove barriers to growth, to be accountable for taxpayer dollars, and to ensure results for programs aimed at helping people.
- This initiative also builds on the President's Management Agenda that government should be citizen centered; results oriented; market-based; and promote innovation through competition.

Key Elements of the Initiative

- Let me turn to the Fund's proposed fiscal year 2006 budget, which has been designed to work alongside the President's proposed new initiative, the Strengthening America's Communities Initiative. Building on existing economic and community development efforts, the President has proposed a new initiative to help strengthen America's transitioning and most needy communities, while making better use of taxpayer dollars by reforming and restructuring many of the existing federal economic and community development programs.

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- Seven major federal agencies currently provide \$16 billion through 35 grant, loan, and tax incentive programs for economic and community development efforts. The current system forces communities to navigate a maze of federal departments and programs in order to access economic and community development assistance programs, each imposing a separate set of standards and reporting requirements. This process is not only overly burdensome, but it also has a negative impact on those smaller communities and organizations that lack the technical and administrative programs that share a similar mission. The Strengthening America's Communities Initiative will help provide a more coherent, strategic and results-oriented focus to federal economic development efforts. In addition, the President's proposal will better target funds to those communities most in need of assistance.
- Under the President's proposal, community development financial institutions (CDFIs) and community development entities (CDEs) will remain eligible to receive grant funding. Rather than have multiple Federal agencies administer separate grant programs, local and State governments will have the flexibility to make awards to meet locally defined needs. In exchange for greater flexibility, there will also be a much greater focus on results and accountability. Given that most CDFIs and CDEs have demonstrated success in creating and retaining jobs, constructing and rehabilitating affordable housing units and providing financial services to those that currently lack adequate access to credit, we expect that those institutions demonstrating value to their communities will continue to be supported under the Strengthening America's Communities Initiative.
- President Bush's proposal consolidates a subset of the federal government's economic and community development programs, transforming them into a new, two-part program: (1) the Strengthening America's Communities Grant Program, a unified economic and community development grant program, and (2) the Economic Development Challenge Fund, a bonus program for communities, modeled after the Millennium Challenge Account.
- The combined economic and community development programs will be administered by the Department of Commerce.

The Case For Reform

"The principle here is clear: A taxpayer dollar must be spent wisely, or not at all."

- There is a growing consensus among the nation's leading economists and economic development researchers and practitioners; there is a need to

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fundamentally rethink and refocus the federal role in support of state and community efforts to promote economic growth and spur job creation in the 21st century economy. For example, last December, the U.S. Council on Competitiveness, a leading non-partisan think tank, issued a groundbreaking report, “Innovate America.” In that report, over 400 corporate and academic leaders called for the consolidation of federal development programs in order to bolster America’s competitiveness.

Application/Execution of the Initiative

- The Administration looks forward to working with stakeholders, such as CDFI, and Congress as it develops enabling legislation, which will be proposed to Congress this summer. This effort will require input and coordination with the Strengthening America’s Communities Advisory Committee, which is in the process of being formed. The Committee will be composed of public members and will provide advice and recommendations to the Secretary of Commerce on the proposed initiative and a report by May 31, 2005.
- When implemented, the President’s “Strengthening America’s Communities Grant Program” will ensure that the communities most in need will receive assistance to transition to a broad-based 21st century economy while at the same time ensuring federal accountability for the expenditure of taxpayer dollars.

I plan to work with my administration, members of Congress and all of you over the coming months as we together make support for community and economic development important business for our nation. And please, contact me at any time in the coming year so that we can work together to improve the communities you work so hard in every day.

Thank you.